



Committee On Finance

Max Baucus, Ranking Member

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\$100 MILLION BUDGET CUT TO IRS MAY COST \$1 BILLION OR MORE IN 2006 TAX COLLECTIONS

Commissioner says across-the-board cut means thousands fewer case closures, audits by mail; estimates indicate huge losses in collection of taxes owed

Washington, DC – U.S. Senator Max Baucus (D-Mont.), Ranking Member of the Senate Finance Committee, estimated today that a “savings” of \$100 million from a one-percent cut in the 2006 budget of the Internal Revenue Service (IRS) will actually cost the U.S. Treasury \$1 billion in lost tax collections. In response to a query from Baucus, IRS Commissioner Mark Everson reported this month that the funding rescinded in last year’s Defense appropriations bill could have provided for the closure of 88,000 additional collection cases and 25,000 additional by-mail audits. (A copy of the Everson correspondence is attached.) Each dollar of the IRS budget results in revenue returned to the government, and a 2003 Government Accountability Office (GAO) report (GAO-03-299) indicates that there would be substantial returns on the dollar – from 11 to 13 dollars raised for every dollar spent – for precisely the kinds of enforcement activities that Everson says have been curtailed by budget cuts this year.

“At a time when the IRS is struggling to close the annual \$345 billion tax gap, it’s clear that the 2006 across-the-board budget cut is hamstringing their efforts even further,” said Baucus. **“Commissioner Everson’s estimates confirm that even small reductions in collection and taxpayer services are penny-wise and pound-foolish. Sparing the IRS budget may be the best way to bring in more owed revenue and end deficit spending.”**

The IRS currently estimates the direct return on each dollar of its budget at four to one. IRS Research Division estimates in the 2003 GAO report, however, placed returns for activities such as tax enforcement at more than ten – and in some cases more than 20 – dollars collected for every dollar spent. Phone calls to follow up on tax debts owed were estimated to return 13 dollars for every dollar spent. Audits by mail returned as much as 11 dollars for every dollar spent. Using the overall rate of a four to one return, this year’s \$100 million budget cut translates to a \$400 million loss. Using estimates from the 2003 GAO report, tied directly to tax collection activities, losses from the 2006 rescission could reach \$1 billion and more.

Currently, \$345 billion in legally owed taxes go uncollected annually. Baucus is a longtime advocate of strong measures to close the annual tax gap. On February 7 of this year, Baucus called on Treasury Secretary John Snow to present a plan for closing the tax gap. To date, the Secretary has failed to respond.

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